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## THE MULVIHILL PREMIUM FUNDS

Annual Report 2000

MCM Split Share Corp.





# MCM Split Share Corp.

## Message to Shareholders

As of January 31, 2000, the net assets of the Corporation were \$119.4 million, after distributions during fiscal 2000 totalling \$1.80 per unit to Class A shareholders, and \$0.8586 per unit to preferred shareholders.

Distributions to Class A shareholders exceeded the minimum target of eight percent. The total pay-out of \$1.80 per unit consisted of a regular dividend of \$1.20, plus special dividends of \$0.60.

These results reflect the dynamic condition of North American equity markets throughout the year 1999. The Corporation remains well positioned for the next 12 months, with its underlying investments forming a well-diversified portfolio of high-quality stocks and money market instruments.

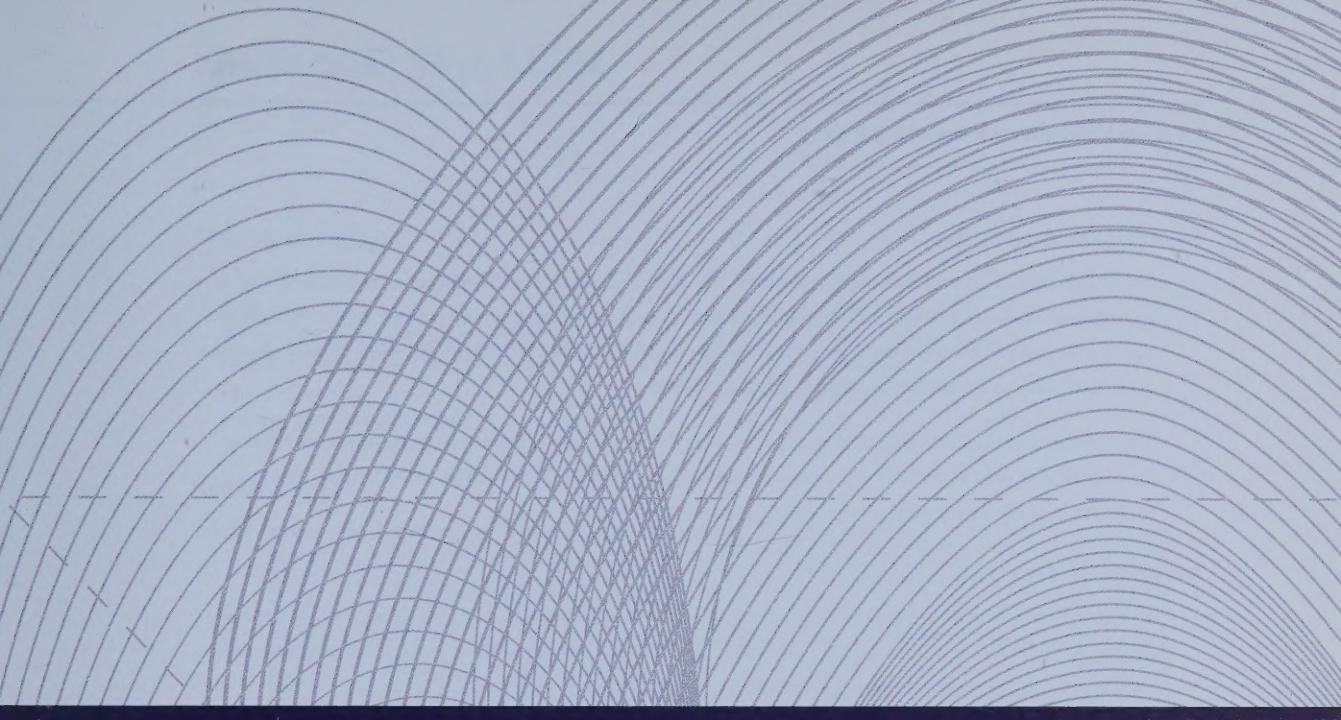
A summary of the Corporation's investments as well as its financial statements are included within this annual report.

We would like to take this opportunity to thank each of the Corporation's shareholders for their continued support.

John P. Mulvihill  
President  
Mulvihill Capital Management Inc.

Donald Biggs  
Vice President, Structured Finance  
Mulvihill Capital Management Inc.





# MCM SPLIT SHARE CORP. [MUH.A/MUH.PR.A]

## Annual Report 2000

|  | <i>page</i>       |
|--|-------------------|
| <b>Message to Shareholders .....</b>           | 1                 |
| <b>Investment Highlights .....</b>             |                   |
| Investment Objectives .....                    | 4                 |
| Investment Strategy .....                      | 4                 |
| Asset Mix .....                                | 4                 |
| Distribution History .....                     | 4                 |
| Top 10 Holdings .....                          | 5                 |
| Trading History .....                          | 5                 |
| Commentary .....                               | 5                 |
| <b>Auditors' Report .....</b>                  | 6                 |
| <b>Financial Statements .....</b>              | 7                 |
| <b>Notes to the Financial Statements .....</b> | 12                |
| <b>Mulvihill Capital Management .....</b>      | 15                |
| <b>Year 2000 .....</b>                         | 16                |
| <b>Board of Directors .....</b>                | <i>back cover</i> |

Investment Management by Mulvihill Capital Management Inc.



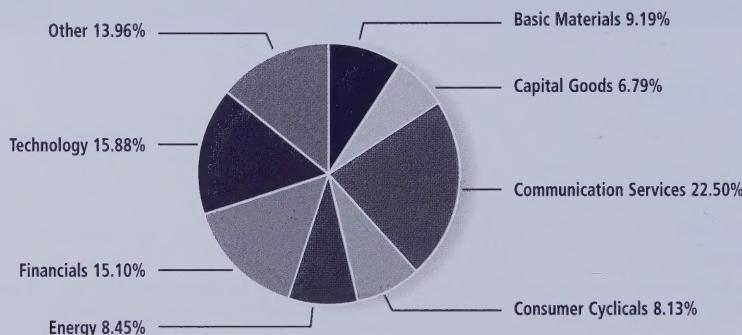
**Investment Highlights****Investment Objectives**

MCM Split Share Corp. was launched on February 12, 1998, to provide investors with an attractive alternative to conventional fixed-income vehicles. The investment objectives of the Corporation are twofold: first, to provide both class A and preferred shareholders with quarterly income distributions, and second, to return the original issue price to all unitholders at the termination date of February 1, 2008.

The target distribution rate for Class A shareholders is \$1.20 per annum, equivalent to an eight-percent yield on the original issue price of \$15.00. For preferred shareholders, the target distribution is \$ 0.825 per annum, equivalent to a 5.5-percent yield on the original share price of \$15.00.

**Investment Strategy**

To accomplish these objectives, the corporation invests in a diversified basket of blue-chip equities in the Canadian market, as well as U.S. securities up to the allowable foreign content limit. Income earned on these investments is further enhanced by writing covered call and cash-covered put options.

**Asset Mix****Distribution History**

| Inception Date: February 1998     | Class A<br>Regular | Special<br>Distribution | Class A<br>Total | Preferred Regular<br>Distribution |
|-----------------------------------|--------------------|-------------------------|------------------|-----------------------------------|
| April 1998                        | \$ 0.2137          |                         | \$ 0.2137        | \$ 0.154900                       |
| July 1998                         | 0.3000             |                         | 0.3000           | 0.215900                          |
| October 1998                      | 0.3000             |                         | 0.3000           | 0.215200                          |
| <b>Total for 1998</b>             | <b>\$ 0.8137</b>   |                         | <b>\$ 0.8137</b> | <b>\$ 0.586000</b>                |
| January 1999                      | 0.3000             |                         | 0.3000           | 0.215657                          |
| April 1999                        | 0.3000             |                         | 0.3000           | 0.214797                          |
| July 1999                         | 0.3000             | \$ 0.1000               | 0.4000           | 0.214847                          |
| October 1999                      | 0.3000             |                         | 0.3000           | 0.215090                          |
| <b>Total for 1999</b>             | <b>\$ 1.2000</b>   | <b>\$ 0.1000</b>        | <b>\$ 1.3000</b> | <b>\$ 0.860391</b>                |
| January 2000                      | 0.3000             | 0.5000                  | 0.8000           | 0.213904                          |
| <b>Total for 2000</b>             | <b>\$ 0.3000</b>   | <b>\$ 0.5000</b>        | <b>\$ 0.8000</b> | <b>\$ 0.213904</b>                |
| <b>Total Distribution to Date</b> | <b>\$ 2.3137</b>   | <b>\$ 0.6000</b>        | <b>\$ 2.9137</b> | <b>\$ 1.660295</b>                |

# MCM Split Share Corp.

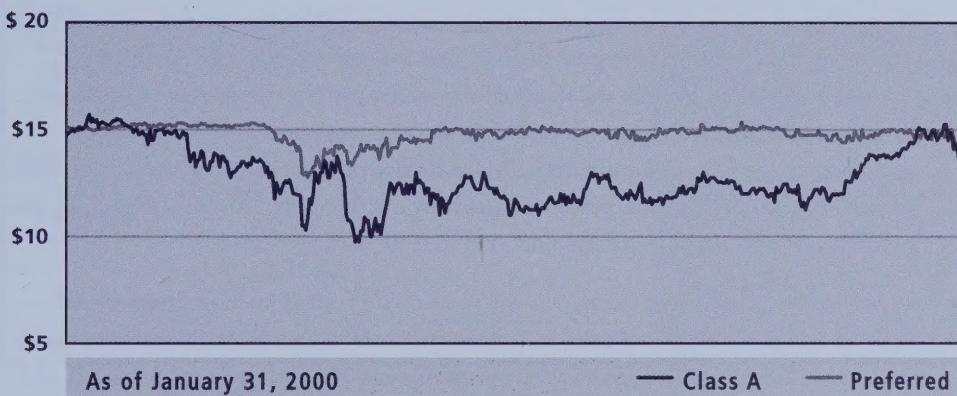
## Investment Highlights

### Top 10 Holdings:

BCE Inc.  
Nortel Networks Corporation  
Toronto-Dominion Bank  
Petro-Canada  
Seagram Company Ltd.

Bombardier Inc. Class B  
Bank of Nova Scotia  
AT&T Corporation  
Alcan Aluminum Ltd.  
Citigroup Inc.

### Trading History



### Commentary

Canadian and U.S. equity markets were extremely dynamic during 1999, buoyed by rapid economic growth in North America, and renewed expansion in other global regions. Stocks in the various technology sectors were the performance leaders through the year, though some have experienced sharp corrections more recently.

Throughout the second half of 1999, the U.S. Federal Reserve attempted to slow the continuing strong growth of the U.S. economy by raising interest rates in a series of steps. These U.S. rate hikes were matched by similar moves from the Bank of Canada.

Equity markets responded to this rising interest rate environment with wide swings in valuation, driven by shifting sentiments regarding the prospect of renewed inflation, and further rate hikes. This market volatility helped the Corporation's overall performance, enabling it to generate high levels of premium income from covered call and cash-covered put option writing.

With both the U.S. and Canadian economies continuing to grow at high rates, investor concerns about the re-emergence of inflation could dampen market performance in the months to come. To combat these uncertainties, the Corporation has diversified its investments into different sectors, including resources, technology and telecommunications, as well as financial services. With our investments conservatively positioned in high-quality stocks and a prudent level of cash reserves on hand, we are confident in our ability to meet our investment objectives.

## Auditors' Report

### To the Shareholders

We have audited the statements of financial position of MCM Split Share Corp. as at January 31, 2000 and 1999, the statement of investments at January 31, 2000, and the statements of operations and retained earnings, changes in net assets and changes in investments for the periods ended January 31, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2000 and 1999, its investments at January 31, 2000, and the results of its operations and the changes in its net assets and investments for the periods ended January 31, 2000 and 1999 in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants

Toronto, Ontario  
March 10, 2000

# MCM Split Share Corp.

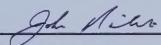
## Financial Statements

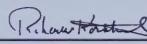
### Statements of Financial Position

January 31, 2000 and 1999

|   | 2000                  | 1999                  |
|---|-----------------------|-----------------------|
| <b>Assets</b>   |                       |                       |
| Investments at market value<br>(average cost - \$121,735,918; 1999 - \$134,848,738) | \$ 122,795,100        | \$ 129,837,486        |
| Cash and cash equivalents   | 3,901,508             | 1,061,791             |
| Interest, dividends and other receivables   | 958,636               | 1,775,172             |
|   | <b>\$ 127,655,244</b> | <b>\$ 132,674,449</b> |
| <b>Liabilities</b>  |                       |                       |
| Accounts payable and accrued liabilities  | \$ 223,173            | \$ 743,258            |
| Redeemable preferred shares (Note 3)  | 60,463,200            | 69,134,400            |
| Net redemptions payable   | 8,062,032             | 3,918,744             |
|   | <b>68,748,405</b>     | <b>73,796,402</b>     |
| <b>Equity</b>   |                       |                       |
| Class A and Class B shares (Note 3)   | 55,390,567            | 63,231,956            |
| Retained earnings   | 2,472,950             | 657,343               |
| Unrealized appreciation (depreciation) in the market value of assets                | 1,043,322             | (5,011,252)           |
|   | <b>58,906,839</b>     | <b>58,878,047</b>     |
| <b>Total liabilities and equity</b>   | <b>\$ 127,655,244</b> | <b>\$ 132,674,449</b> |
| <b>Net asset value per Class A share</b>  | <b>\$ 14.6136</b>     | <b>\$ 12.7745</b>     |

On behalf of the Board,

  
\_\_\_\_\_  
Director: John P. Mulvihill

  
\_\_\_\_\_  
Director: Robert W. Korthals

## Financial Statements

**Statements of Operations and Retained Earnings**

Periods ended January 31, 2000 and 1999

|   | 2000                | 1999                |
|---|---------------------|---------------------|
| <b>Revenue</b>  |                     | (Note 1)            |
| Interest  | \$ 1,790,569        | \$ 2,967,679        |
| Dividends   | 1,659,421           | 2,391,294           |
| Withholding taxes                                       | (30,986)            | (29,108)            |
|   | <b>3,419,004</b>    | <b>5,329,865</b>    |
| Net realized gains on investments and options           | 11,839,412          | 6,797,522           |
|   | <b>15,258,416</b>   | <b>12,127,387</b>   |
| <b>Expenses (Note 5)</b>                                |                     |                     |
| Management fees   | 1,574,448           | 1,545,895           |
| Administrative expenses                                 | 118,622             | 147,014             |
| GST and other expenses                                  | 115,986             | 309,364             |
|   | <b>1,809,056</b>    | <b>2,002,273</b>    |
| <b>Net Income before Distributions and Income Taxes</b> | <b>13,449,360</b>   | <b>10,125,114</b>   |
| <b>Income Taxes (Recovery) (Note 6)</b>                 | <b>(7,866)</b>      | <b>369,979</b>      |
| <b>Net Income before Distributions</b>                  | <b>13,457,226</b>   | <b>9,755,135</b>    |
| <b>Preferred Share Distributions (Note 7)</b>           | <b>3,774,716</b>    | <b>3,807,930</b>    |
| <b>Net Income</b>                                       | <b>\$ 9,682,510</b> | <b>\$ 5,947,205</b> |
| <b>Net Income Per Class A Share (Note 4)</b>            | <b>\$ 2.18</b>      | <b>\$1.25</b>       |
| <b>Retained Earnings</b>                                |                     |                     |
| Balance, beginning of year                              | \$ 657,343          | \$ -                |
| Net income  | 9,682,510           | 5,947,205           |
| Distributions on Class A shares (Note 7)                | (7,866,903)         | (5,289,862)         |
| <b>Balance, end of year</b>                             | <b>\$ 2,472,950</b> | <b>\$ 657,343</b>   |

# MCM Split Share Corp.

## Financial Statements

### Statements of Changes in Net Assets

Periods ended January 31, 2000 and 1999

|   | 2000                 | 1999                 |
|---|----------------------|----------------------|
|   | (Note 1)             |                      |
| <b>Share Capital Transactions</b>   |                      |                      |
| Proceeds from Class A shares issued, net of issue costs (Note 3)                        | \$ -                 | \$ 65,050,000        |
| Proceeds from Class B shares issued   | -                    | 1,000                |
| Shares redeemed, net  | (7,844,179)          | (1,819,044)          |
|   | <b>(7,844,179)</b>   | <b>63,231,956</b>    |
| <b>Net Income before Distributions</b>  | <b>13,457,226</b>    | <b>9,755,135</b>     |
| <b>Distributions (Note 7)</b>   |                      |                      |
| Preferred shares  | (3,774,716)          | (3,807,930)          |
| Class A shares  | (7,866,903)          | (5,289,862)          |
|   | <b>(11,641,619)</b>  | <b>(9,097,792)</b>   |
| <b>Change in Net Unrealized Appreciation/(Depreciation) of Assets During the Period</b> | <b>6,057,364</b>     | <b>(5,011,252)</b>   |
| <b>Change in Equity During the Period</b>   | <b>28,792</b>        | <b>58,878,047</b>    |
| <b>Equity, Beginning of Period</b>  | <b>58,878,047</b>    | -                    |
| <b>Equity, End of Period</b>  | <b>\$ 58,906,839</b> | <b>\$ 58,878,047</b> |
| <b>Distribution Per Preferred Share (Note 7)</b>  | <b>\$0.8586</b>      | <b>\$0.8017</b>      |
| <b>Distribution Per Class A Share (Note 7)</b>  | <b>\$1.8000</b>      | <b>\$1.1137</b>      |

### Statements of Changes in Investments

For the periods ended January 31, 2000 and 1999

|   | 2000                 | 1999                 |
|---|----------------------|----------------------|
|   | (Note 1)             |                      |
| <b>Investments at Market Value, Beginning of Period</b>                     | <b>\$129,837,486</b> | <b>\$ -</b>          |
| <b>Unrealized Depreciation of Investments, Beginning of Period</b>          | <b>5,011,252</b>     | <b>-</b>             |
| <b>Investments at Cost, Beginning of Period</b>                             | <b>134,848,738</b>   | <b>-</b>             |
| <b>Cost of Investment Purchased During the Period</b>                       | <b>99,850,174</b>    | <b>223,736,708</b>   |
| <b>Cost of Investment Sold During the Period</b>                            |                      |                      |
| Proceeds from sales   | 124,802,406          | 95,685,492           |
| Net realized gains on sales   | 11,839,412           | 6,797,522            |
|   | <b>112,962,994</b>   | <b>88,887,970</b>    |
| <b>Investments at Cost, End of Period</b>                                   | <b>121,735,918</b>   | <b>134,848,738</b>   |
| <b>Unrealized Appreciation (Depreciation) of Investments, End of Period</b> | <b>1,059,182</b>     | <b>(5,011,252)</b>   |
| <b>Investments at Market Value, End of Period</b>                           | <b>\$122,795,100</b> | <b>\$129,837,486</b> |

**Financial Statements****Statement of Investments**

January 31, 2000

|   | Par Value/<br>No. of Shares            | Average<br>Cost (\$)                             | Market<br>Value (\$)                             | % of<br>Portfolio |
|---|--|--|--|-------------------|
| <b>Investments</b>  |  |  |  |                   |
| <b>Canadian Bonds</b>   |  |  |  |                   |
| Federal Bonds<br>Canada Mortgage & Housing Corp. 8.800% March 1, 2000   | 24,700,000                             | \$24,803,870                                     | \$24,770,313                                     | 20.2%             |
| <b>Canadian Common Stocks</b>   |  |  |  |                   |
| Metals and Minerals<br>Alcan Aluminum Ltd.  | 60,000                                 | 2,931,147  | 3,360,000  | 2.7%              |
| Gold and Precious Metals<br>Placer Dome Inc.  | 130,000                                | 2,804,250  | 1,638,000  | 1.3%              |
| Oil and Gas<br>Canadian Occidental Petroleum Ltd.<br>Imperial Oil Ltd.<br>Petro-Canada  | 80,000<br>60,000<br>200,000            | 1,921,818<br>1,857,500<br>4,612,360              | 2,340,000<br>1,689,000<br>4,320,000              |                   |
| <b>Total Oil and Gas</b>  |  | <b>8,391,678</b>                                 | <b>8,349,000</b>                                 | <b>6.8%</b>       |
| Paper and Forest Products<br>Domtar Inc.  | 130,000                                | 2,356,183  | 2,288,000  | 1.9%              |
| Consumer Products<br>Biochem Pharma Inc.  | 40,000                                 | 1,441,200  | 1,640,000  | 1.3%              |
| Industrial Products<br>ATI Technologies Inc.<br>Bombardier Inc. Class B<br>Magna International Class A<br>Nortel Networks Corp.     | 165,000<br>130,000<br>35,000<br>50,000 | 3,138,541<br>2,896,593<br>3,422,240<br>2,658,015 | 2,763,750<br>3,809,000<br>2,108,750<br>6,855,000 |                   |
| <b>Total Industrial Products</b>  |  | <b>12,115,389</b>                                | <b>15,536,500</b>                                | <b>12.7%</b>      |
| Transportation and Environmental Services<br>Canadian National Railway Co.  | 60,000                                 | 2,714,460  | 2,112,000  | 1.7%              |
| Pipelines<br>Transcanada Pipelines Inc.   | 105,000                                | 2,787,600  | 1,228,500  | 1.0%              |
| Utilities<br>BCE Inc.<br>BCT Telus Non-voting<br>BCT Telus Communications Inc.<br>Manitoba Telecom Services Inc.                    | 87,850<br>25,273<br>75,819<br>90,000   | 5,795,206<br>1,228,763<br>3,686,289<br>2,112,000 | 12,935,912<br>916,146<br>2,881,122<br>2,065,500  |                   |
| <b>Total Utilities</b>  |  | <b>12,822,258</b>                                | <b>18,798,680</b>                                | <b>15.3%</b>      |
| Communications & Media<br>Seagram Company Ltd.<br>Thomson Corp  | 50,000<br>75,000                       | 4,069,860<br>3,057,785                           | 4,150,000<br>2,887,500                           |                   |
| <b>Total Communications &amp; Media</b>   |  | <b>7,127,645</b>                                 | <b>7,037,500</b>                                 | <b>5.8%</b>       |
| Financial Services<br>Bank of Nova Scotia<br>Canadian Imperial Bank of Commerce<br>National Bank of Canada<br>Toronto Dominion Bank | 120,000<br>70,000<br>60,000<br>120,000 | 4,105,250<br>3,323,476<br>1,749,372<br>4,077,535 | 3,546,000<br>2,646,000<br>1,047,000<br>4,350,000 |                   |
| <b>Total Financial Services</b>   |  | <b>13,255,633</b>                                | <b>11,589,000</b>                                | <b>9.4%</b>       |

# MCM Split Share Corp.

## Financial Statements

### Statement of Investments (continued)

January 31, 2000

|  | Par Value/<br>No. of Shares | Average<br>Cost (\$) | Market<br>Value (\$) | % of<br>Portfolio |
|--|-----------------------------|----------------------|----------------------|-------------------|
| <b>Investments (continued)</b>                       |                             |                      |                      |                   |
| <b>Canadian Common Stocks (continued)</b>            |                             |                      |                      |                   |
| <b>Conglomerates</b>                                 |                             |                      |                      |                   |
| Canadian Pacific Ltd.                                | 80,000                      | 3,244,772            | 2,480,000            |                   |
| Power Corporation                                    | 100,000                     | 3,348,661            | 2,190,000            |                   |
| <b>Total Conglomerates</b>                           |                             | <b>6,593,433</b>     | <b>4,670,000</b>     | <b>3.8%</b>       |
| <b>Total Canadian Common Stocks</b>                  |                             | <b>75,340,876</b>    | <b>78,247,180</b>    | <b>63.7%</b>      |
| <b>Foreign Common Stocks - USA</b>                   |                             |                      |                      |                   |
| <b>Chemicals</b>                                     |                             |                      |                      |                   |
| Monsanto Co.   | 35,000                      | 2,900,863            | 1,790,746            | 1.5 %             |
| <b>Data Processing &amp; Reproduction</b>            |                             |                      |                      |                   |
| Microsoft Corporation                                | 15,000                      | 2,276,402            | 2,127,162            | 1.7%              |
| <b>Electrical and Electronics</b>                    |                             |                      |                      |                   |
| General Electric Company                             | 15,000                      | 2,975,640            | 2,898,700            | 2.4%              |
| <b>Electrical Components &amp; Instruments</b>       |                             |                      |                      |                   |
| Texas Instruments                                    | 15,000                      | 2,516,118            | 2,344,497            | 1.9%              |
| <b>Automotive</b>                                    |                             |                      |                      |                   |
| Ford Motor Company                                   | 25,000                      | 2,253,715            | 1,802,068            | 1.5%              |
| <b>Merchandising</b>                                 |                             |                      |                      |                   |
| Home Depot Inc.                                      | 15,000                      | 1,226,498            | 1,230,657            | 1.0%              |
| <b>Telecommunications</b>                            |                             |                      |                      |                   |
| AT&T Corp  | 45,000                      | 3,912,877            | 3,439,320            | 2.8%              |
| Lucent Technologies Inc.                             | 20,000                      | 1,574,848            | 1,601,032            | 1.3%              |
| <b>Total Telecommunications</b>                      |                             | <b>5,487,725</b>     | <b>5,040,352</b>     | <b>4.1%</b>       |
| <b>Financial Services</b>                            |                             |                      |                      |                   |
| Citigroup  | 40,000                      | 2,906,126            | 3,328,841            | 2.7%              |
| <b>Total Foreign Common Stocks - USA</b>             |                             | <b>22,543,087</b>    | <b>20,563,023</b>    | <b>16.8%</b>      |
| <b>Written Cash Covered Put Options</b>              |                             |                      |                      |                   |
| <b>Number of contracts (100 shares per contract)</b> |                             |                      |                      |                   |
| Halliburton Co. April 2000 @ \$40                    | 400                         | (352,961)            | (362,224)            |                   |
| Lucent Technologies April 2000 @ \$50                | 100                         | (72,289)             | (35,317)             |                   |
|  |                             | <b>(425,250)</b>     | <b>(397,541)</b>     | <b>(0.4%)</b>     |
| <b>Written Call Options</b>                          |                             |                      |                      |                   |
| <b>Number of contracts (100 shares per contract)</b> |                             |                      |                      |                   |
| ATI Technologies April 2000 @ \$23                   | 500                         | (81,500)             | (37,500)             |                   |
| Biochem Pharma Inc. June 2000 @ \$40                 | 200                         | (54,600)             | (118,000)            |                   |
| Bombardier Inc. April 2000 @ \$33                    | 300                         | (38,400)             | (30,000)             |                   |
| Canadian National Railway March 2000 @ \$50          | 300                         | (111,900)            | (4,800)              |                   |
| Home Depot Inc. February 2000 @ \$85                 | 150                         | (75,128)             | (47,542)             |                   |
| Lucent Technologies February 2000 @ \$55             | 100                         | (59,537)             | (38,033)             |                   |
| Seagram Co. Ltd. April 2000 @ \$85                   | 200                         | (105,600)            | (112,000)            |                   |
|  |                             | <b>(526,665)</b>     | <b>(387,875)</b>     | <b>(0.3%)</b>     |
| <b>Total Options</b>                                 |                             | <b>(951,915)</b>     | <b>(785,416)</b>     | <b>(0.7%)</b>     |
| <b>Total Investments</b>                             |                             | <b>\$121,735,918</b> | <b>\$122,795,100</b> | <b>100.0%</b>     |

**Notes to the Financial Statements****1. Corporate Information**

The Company is a mutual fund corporation incorporated under the laws of the Province of Ontario on December 5, 1997. The Company was inactive prior to the initial public offering of Preferred Shares and Class A Shares on February 12, 1998. All shares outstanding on February 1, 2008 will be redeemed by the Company on that date.

The Company invests in a diversified portfolio consisting principally of common shares issued by some or all of the group of corporations selected from TSE 300 Index. The Company may invest up to 20% of the cost amount of its assets in common shares issued by some or all of a group of corporations selected from the Standard & Poor's 100 Index.

To generate additional returns above the dividend income earned on the portfolio, the Company will from time to time write covered call options in respect of all or part of the common shares in the portfolio. Additionally, the Company may use put options to preserve the value of the portfolio where appropriate. From time to time, the portfolio may include debt securities having a remaining term to maturity of less than one year issued or guaranteed by the government of Canada or a province or the government of the United States or short-term commercial paper with a rating of at least R-1(mid).

**2. Summary Of Significant Accounting Policies***Investment valuation policies*

Investments are recorded in the financial statements at their market value at the end of the period, determined as follows:

Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices.

Listed options are valued at market values as reported

on recognized exchanges. Over the counter options are valued using an appropriate valuation model.

Short-term investments are valued at cost plus accrued interest which approximates market values.

*Policies for the recognition of investment appreciation, depreciation and income*

Realized gains and losses on investment sales, which are included in income, and unrealized appreciation or depreciation in investment values, which are included in a separate component of shareholders' equity, are calculated on the average cost basis.

Option fees paid or received are deferred and included in investments on the statement of financial position. Income is recognized when options are exercised, expired or are closed out.

Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the market value of investments in shareholders' equity.

Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned.

**3. Share Capital**

The Company is authorized to issue an unlimited number of Preferred and Class A Shares and 1,000 Class B Shares.

|  | 2000                 | 1999                 |
|--|----------------------|----------------------|
| 4,030,880 Preferred Shares<br>(1999 - 4,608,960) | \$ 60,463,200        | \$ 69,134,400        |
| 4,030,880 Class A Shares<br>(1999 - 4,608,960)   | \$ 55,389,567        | \$ 63,230,956        |
| 1,000 Class B Shares                             | 1,000                | 1,000                |
|  | <b>\$ 55,390,567</b> | <b>\$ 63,231,956</b> |

All Preferred Shares and Class A Shares outstanding on February 1, 2008 will be redeemed by the Company on that date.

Preferred Shares and Class A Shares may be surrendered at any time for retraction at specified retraction amounts. Holders of Preferred Shares and Class A

Shares may concurrently retrace one Preferred Share and one Class A Share on a January 31 valuation date at their net asset values. Shares retraced at any other valuation date or not retraced concurrently at a January 31 valuation date will be retraced at a discount to net asset value. Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred Shares and Class A Shares tendered for retraction. The Preferred Shares rank in priority to the Class A Shares and the Class A Shares rank in priority to the Class B Shares with respect to the payment of dividends and repayment of capital on the dissolution, liquidation or winding up of the Company.

The holders of Class B Shares are not entitled to receive dividends. The Class B Shares are retractable at a price of \$1.00 per share.

Class B Shares are entitled to one vote per share. Preferred Shares and Class A Shares are entitled to vote on certain shareholder matters.

The Company's Preferred Shares have been classified as liabilities in accordance with the accounting guidelines of The Canadian Institute of Chartered Accountants. Accordingly, net income for the year is stated after Preferred Shares distributions.

On February 12, 1998, the Company issued 4,750,000 Units, each Unit consisting of one Preferred Share and one Class A Share. In total, the Company issued 4,750,000 Preferred Shares at \$15.00 per share for gross proceeds of \$71,250,000 and 4,750,000 Class A Shares at \$15.00 per share for gross proceeds of \$71,250,000. Initial issue costs and other expenses of \$6,200,000 were incurred in connection with the organization of the Company and were charged against equity.

A net of 578,080 Units (1999 - 141,040 Units) were redeemed in the year.

#### **4. Net Income Per Class A Share**

The net income per Class A Share is based on the weighted average number of shares outstanding during the period.

#### **5. Expenses**

The Company is responsible for all ongoing trustee, manager, legal, accounting and audit fees as well as all other expenses incurred by the trustee and manager in the ordinary course of business relating to the Company's operations.

Fees are paid to Mulvihill Capital Management Inc. ("MCM") under the terms of an investment management agreement and to Mulvihill Fund Services Inc. ("Mulvihill") under the terms of a management agreement. The fees are comprised of monthly fees calculated at 1/12 of 1.15% and 1/12 of 0.10%, respectively, of the net asset value.

The expense ratio for the Company is as follows:

|      | Total Expenses | Expenses as a percent of average net assets |
|------|----------------|---|
| 2000 | \$ 1,809,056   | 1.44%                                       |
| 1999 | \$ 2,002,273   | 1.62%                                       |

Average net assets are calculated to be the net assets of the Company at each month end.

#### **6. Income Taxes**

The Company is a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. The Company is generally subject to a tax of 331/3% under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends.

The Company is also a "financial intermediary corporation" as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax

## Notes to the Financial Statements

under Part VI.1 on dividends paid on taxable preferred shares.

### 7. Distributions

Distributions per share paid to shareholders during the period were allocated as follows:

|                         | 2000             |                 | 1999             |                 |
|-------------------------|------------------|-----------------|------------------|-----------------|
|                         | Preferred Shares | Class A Shares  | Preferred Shares | Class A Shares  |
| Capital gains dividends | \$0.5283         | \$1.8000        | \$0.5666         | \$0.8646        |
| Taxable dividends       | 0.3303           | -               | 0.2351           | 0.2491          |
|                         | <b>\$0.8586</b>  | <b>\$1.8000</b> | <b>\$0.8017</b>  | <b>\$1.1137</b> |

Preferred Shares are entitled to a cumulative preferential quarterly dividend of \$0.20625 per share payable on the last day of April, July, October and January in each year. To the extent that a quarterly dividend is a capital gains dividend funded by net realized capital gains or option premiums, holders of Preferred Shares will receive an additional capital gains dividend of \$0.068 for each \$1.00 of Preferred Share dividend so funded.

The difference between net income per Class A Share and the amount distributed per Class A Share represents primarily share issue expenses which are being deducted for tax purposes over five years.

### 8. Commissions

Total commissions paid for the year ended January 31, 2000 were \$177,315.

### 9. Financial Instruments And Risk Management

The value of the Company's assets and liabilities is affected by changes in interest rates and equity markets. The Company manages these risks through the use of various risk limits and trading strategies. The Company's assets and liabilities are included in the statements of financial position at market value.

### 10. Uncertainty Due To The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to investees, suppliers, or other third parties, have been fully resolved.

### 11. Statement Of Portfolio Transactions

The Company will provide, without charge, a Statement of Portfolio Transactions (unaudited) upon written request by any shareholder to the Company at:

121 King Street West, Suite 2600,  
Toronto, Ontario,  
M5H 3T9.

# Mulvihill Capital Management Inc.

Mulvihill Capital Management Inc. is a leading Canadian investment counselor responsible for the care of institutional and personal assets. The company manages corporate, pension, insurance, endowment, trust and mutual funds under a wide variety of investment mandates. Founded in 1985 as CT Investment Counsel Inc., the investment arm of Canada Trust, the company emerged in 1995 as an independent company operated by a cohesive team of senior managers and owners who have been together for more than a decade. The company's scale and independent structure allow it to provide clients with a uniquely customized approach to asset management.

The Mulvihill Premium Funds are managed by Mulvihill Capital's structured finance group. This area of the company concentrates exclusively on creating and managing products tailored to meet very specific investment objectives. Assets are generally managed to meet specific absolute return levels rather than taking on the additional risk of targeting relative returns. This methodology allows the company to make investment decisions that meet the client's needs rather than to make investments to rival the competition.

Mulvihill's personal asset management division, Mulvihill Wealth Management, offers a comprehensive specialized approach tailored to clients' personal strategies. This not only relieves the client's burden of day-to-day investment decisions but also provides financial peace of mind for today and tomorrow. The company's personalized service and customized reporting assure that its powerful team of professionals is always working toward your current objectives and that you are fully aware of the progress you are making.

Mulvihill's reputation has been built on its ability to provide customized portfolios that meet the stated needs of its clients. The Premium Income investments are prime examples of that customized approach to asset management.

Other Premium Income products within the Mulvihill Group include First Premium Income Trust, First Premium U.S. Income Trust, First Premium Oil & Gas Income Trust, 60 Plus Income Trust, Global Plus Income Trust, Premium Income Corporation, Global Telecom Split Share Corp. and Digital World Trust.

These are closed end mutual funds which are traded on the Toronto Stock Exchange over the past year as follows:

|                                      | Symbol         | High           | Low            |
|--------------------------------------|----------------|----------------|----------------|
| First Premium Income Trust           | FPI.UN         | \$ 28.20       | \$ 25.00       |
| First Premium U.S. Income Trust      | FPU.UN         | \$ 27.75       | \$ 24.75       |
| First Premium Oil & Gas Income Trust | FPG.UN         | \$ 9.90        | \$ 5.75        |
| 60 Plus Income Trust                 | SIX.UN         | \$ 27.25       | \$ 24.80       |
| Global Plus Income Trust             | GIP.UN         | \$ 25.50       | \$ 24.25       |
| Premium Income Corporation           | PIC.A/PIC.PR.A | \$ 13.85/15.65 | \$ 10.25/14.40 |
| MCM Split Share Corp.                | MUH.A/MUH.PR.A | \$ 15.10/15.35 | \$ 11.00/14.40 |
| Global Telecom Split Share Corp.     | GT.A/GT.PR.A   | \$ 20.65/16.60 | \$ 14.00/14.40 |

## YEAR 2000

The year 2000 concern originates from the use in computer applications of a two-digit field to denote the year (for example, "99" for 1999) rather than a four-digit field. As a result, when entering the year 2000, the two-digit field will read "00" and affected computers may assume the year is 1900. The Corporation could be adversely affected by this problem if the computer systems used by MCM, Mulvihill and other service providers do not properly process and calculate date-related information from and after January 1, 2000.

In conducting their respective businesses, the Corporation will rely on information generated by the computer systems of third party service providers, including MCM, Mulvihill, The Royal Trust Company, Montreal Trust Company of Canada, banks, stock exchanges, utilities and other third parties for critical services. MCM and Mulvihill have advised the Corporation that they have put in place Year 2000 plans in an effort to ensure that their information systems are Year 2000 compliant and have, where necessary, modified and tested their mission critical systems. MCM and Mulvihill do not believe that there would be any material impact on the Corporation if their respective systems were not Year 2000 compliant, given that the assets of the company and records relating to those assets, as well as accounting and other financial data, are maintained by The Royal Trust Company as trustee and custodian, and that certain Shareholder records are maintained by Montreal Trust Company of Canada as registrar and transfer agent or by CDS through the book-based system. MCM and Mulvihill have paid the costs associated with their Year 2000 plans. To prepare for the possibility that adequate steps have not been taken, MCM and Mulvihill also prepared and approved formal Year 2000 contingency plans. To date, neither MCM nor Mulvihill has reported any problems relating to their computer systems arising out of year 2000 concerns which would adversely affect the Corporation.

Mulvihill also made enquires of The Royal Trust Company and Montreal Trust Company of Canada in order to assess the status of their information systems with respect to year 2000 readiness issues. In response, Mulvihill received assurances from such service providers that all internal testing and any required adjustments were completed well in advance of January 1, 2000. There can be no assurance, however, that any of the Corporation's third party service providers have, or will have, information systems that are Year 2000 compliant and that the NAV of the Corporation will not be adversely affected. In addition, while MCM considers the Year 2000 readiness of issuers of the Corporation's securities in making investment decisions, there is no assurance that such issuers are Year 2000 compliant. If any such issuers are not Year 2000 compliant, the NAV of the Corporation could be adversely affected.

## Board of Directors

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### **John P. Mulvihill**

Chairman & President,  
Mulvihill Capital Management Inc.

### **David N. Middleton**

Vice President, Finance & CFO,  
Mulvihill Capital Management Inc.

### **Robert W. Korthals**

Corporate Director

### **C. Edward Medland**

President, Beauwood Investments Inc.

## Information

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### **Auditors:**

Deloitte & Touche LLP  
BCE Place  
181 Bay Street, Suite 1400  
Toronto, Ontario M5J 2V1

### **Transfer Agent:**

Montreal Trust  
151 Front Street, 8th Floor  
Toronto, Ontario M5J 2N1

### **Shares Listed:**

Toronto Stock Exchange  
trading under MUH.PR, MUH.PR.A

### **Custodian:**

Royal Trust  
Royal Trust Tower  
77 King Street West, 11th Floor  
Toronto, Ontario M5W 1P9

## Head Office

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### **Head Office:**

The Mulvihill Premium Funds  
121 King Street West, Suite 2600  
Toronto, Ontario M5H 3T9  
fax: (416) 681-3901  
tel: (416) 681-3966 or (800) 725-7172  
email: premium@mulvihill.com

Visit our website at [www.mulvihill.com](http://www.mulvihill.com) for additional information on all Premium Funds.



MCM Split Share Corp.  
Investment Management by:

**Mulvihill Capital Management Inc.**

121 King Street West, Suite 2600  
Toronto, Ontario M5H 3T9

Tel: 416-681-3966 800-725-7172

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